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Vol. 24, No. 30 July 30, 1990

NEWS BRIEFS

Fear of frying: Hamburger giants adopt veggie oil

MIAMI — In rapid-fire succession, Burger King and McDonald's have pledged to adopt pure vegetable oil as the deep-frying medium for their french fries.

The two burger giants have used a mixture of animal fats and vegetable oils, which yields foods richer in cholesterol than ones fried in a pure vegetable medium. The chains disclosed their changeover plans within days of one another and less than a week before Wendy's was slated to announce its switch to a cholesterol-free medium. Burger King won the three-way race by a margin of six days.

The once-standard practice of cooking french fries in a blend of animal and vegetable fats has been attacked by consumer advocates and customers seeking to lessen their intake of cholesterol.

Hardee's, the nation's third largest burger chain, switched to vegetable oil more than two years ago and Carl's Jr. changed over last year.

Calif. lawmakers shelve proposal to lower business meal reduction

SACRAMENTO, Calif. — A proposal to lower California's tax deduction for business meals from 80 percent to 70 percent was shelved by lawmakers caught up in a bitter partisan battle to narrow the state's $3.5 billion budget deficit.

"We told them [lawmakers] that if they continue to attack our business, their tax revenues will decline, not increase," California Restaurant Association lobbyist Jo-Linda Thompson said after a joint committee of the Senate and Assembly killed the deduction-reduction measure. She said it was unlikely that the proposal would find its way back into the budget before its adoption. But, noting that the state's finances are in bad shape, she added that "anything is possible."

The Assembly, which is controlled by Democrats who wanted the Republican governor and Senate majority to approve new taxes to balance the budget, included the proposal to reduce the meal deduction in a draft budget it sent to the Senate. Supporters of lessening the percentage of business meal expenditures companies could deduct from taxes said the 10-percent reduction would raise an additional $90 million in taxes.

DC enacts family leave legislation

WASHINGTON — The District of Columbia has passed legislation that requires large businesses to grant employees as much as 12 weeks of unpaid leave to care for a newborn or an ill family member.

The law regards longtime live-in lovers, including homosexual partners, as family members.

Staffers would be guaranteed their old job or a comparable position upon returning from their furlough. In addition, health benefits would be maintained at the employer's expense during a worker's departure.

The legislation is similar to the federal family leave bill recently vetoed by President Bush. However, that proposal did not extend the leave rights to partners in "committed relationships," as the District bill does.

The local proposal has not yet been approved by Congress, as is required by District statutes.

Hartzog dies; fast food pioneer

ATLANTA — L.S. Hartzog, a pioneer of fast food as an early franchisee of Kentucky Fried Chicken and Wendy's, died at age 83.

Starting as a biscuit supplier in Selma, Ala., Hartzog became a KFC franchisee, eventually opening 35 outlets and later signing on as Wendy's first franchisee, opening 84 units.

"L.S. played a major role in establishing Wendy's credibility," Wendy's founder and chairman, R. David Thomas, said in tribute, "when others were saying that the market was already saturated."

Hartzog also launched the Granny's Fried Chicken chain, which eventually became Mrs. Winner's, and had affiliations with Po Folks family restaurants, Hartz Fried Chicken and an airplane dealership.

Survivors include a wife and a son. The family requested memorials be sent to the American Cancer Society.

City council eyes mandated health for Washington

WASHINGTON — The city council is airing a proposal that would obligate businesses to provide employees with health insurance.

The initiative has just been submitted for public comment. It is certain to draw sharp criticism from the foodservice trade, which has argued that it cannot afford the high costs of insuring every staffer. The industry points out that the restaurant business is highly labor intensive, with even small places employing a relatively large number of persons.

Universal health proposals are also circulating in California and a number of other states. Massachusetts has enacted a modified version that requires employers to either provide health care or subsidize state coverage.

Culinary Team USA names pastry chef at ACF convention

NEW ORLEANS — Martha Crawford, the pastry chef who won the highest hot and cold plate scores in regional tryouts this spring, has been named national pastry chef for 1992 Culinary Team USA.

Crawford, assistant pastry chef at Exton, Pa.-based Desserts International, was named the Culinary Olympics team's pastry chef at the American Culinary Federation's 61st annual convention here. About 1,700 delegates from 217 chapters gathered for the meeting.

Scott Hunter, executive pastry chef at The Registry in Scottsdale, Ariz., outscored eight other competitors to be named pastry chef for the U.S. team's Western regional squad. Hunter's appointment leaves just two pastry chef spots unfilled, on the Northeast and Midwest regional teams.

Menu inflation holds steady at 5% in June

WASHINGTON — Menu prices charted a 5-percent year-to-year gain in June, unchanged from April and May, the U.S. Labor Department said in its latest inflation report.

Analysts said the flat inflation rate signaled operators' difficulty in raising prices at a time of softening sales.

Sales growth at the nation's eating and drinking places slowed to a year-to-year unadjusted rate of 3.4 percent in June, down from 4.8 percent in May, an earlier Commerce Department report showed.

When June's 3.4 percent sales gain is discounted by the month's 5-percent price increase, then restaurant traffic apparently slumped 1.6 percent in June from the year-ago month, a heavier dip than the 0.2 percent decline in May.

The Labor Department also said in its monthly inflation report that the overall Consumer Price Index scored a 5.9 percent year-to-year advance in June, fed by a combination of rising food, medical and energy costs.

Supermarket prices, the department said, jumped sharply to a 6 percent year-to-year rate, up from May's 5.2 percent pace but slower than April's 6.2 percent.

Nestlé hangs 'For Sale' sign on restaurants

SOLON, Ohio — Swiss food giant Nestlé S.A. said it plans to sell its 65-unit U.S. restaurant division, which operates such posh restaurants as New York's Top of the Sixes and such dinner-house chains as J.B. Winberie, Rusty Scupper and Cheese Cellar.

The Swiss conglomerate said it plans to divest the 66-year-old Stouffer Restaurant Co. to focus on such other food operations as Stouffer Hotel Co. and L.J. Minor Corp., a foodservice supplier.

Nestlé said its decision is part of an "extensive" re-evaluation of its U.S. business plan.

FINANCIAL NEWS

Strong stock market prompts O'Charley's to go public

by Milford Prewitt

NASHVILLE, Tenn. — Confident that management has perfected its concept and excited by a roaring stock market, O'Charley's Inc. launched an initial public offering of $2.5 million shares at about $9 a share.

The offering is expected to raise about $22.5 million.

After underwriting fees, commissions and related expenses are taken care of, the net proceeds are expected to be $15 million, with which the company plans to substantially reduce debt and ignite an expansion drive.

The company's stock will be traded on NASDAQ, the over-the-counter exchange, and identified by the symbol CHUX.

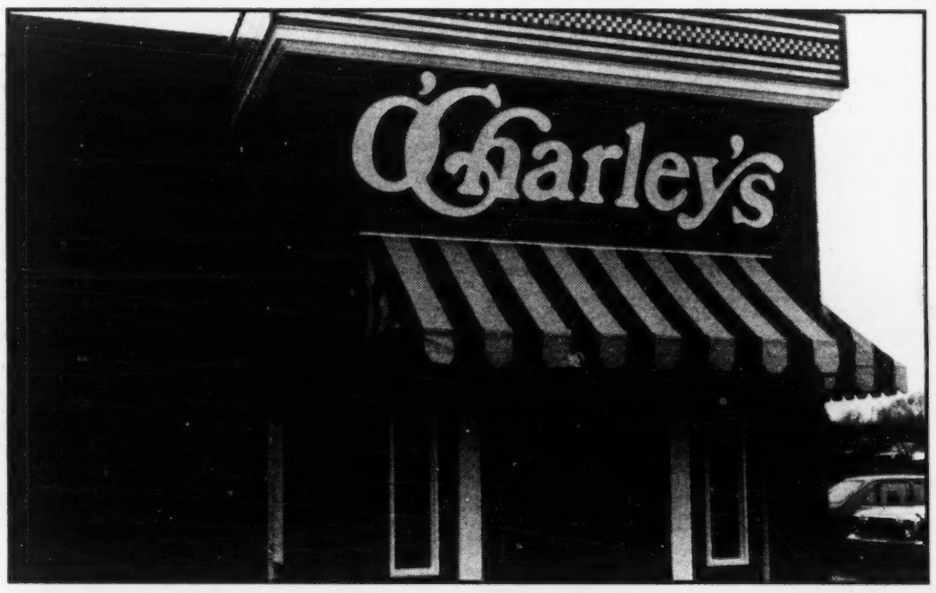
O'Charley's, a 21-year-old concept whose president and chief executive officer is restaurant entrepreneur and former Shoney's chief executive Dave Wachtel, competes in the casual-themed dinnerhouse segment with 20 company units and eight franchised operations. The entire chain is concentrated in the South, primarily in five Southeastern states.

Wachtel said the resurgence of the stock market and management's belief that the O'Charley's concept is a strong competitor in a non-glutted segment prompted the move to go public.

"The market is at 3000 [the Dow Jones Industrial Average]," Wachtel said. "It's a strong market, and it's a good timing for us."

According to the financial summary included in registration documents with the Securities and Exchange Commission, O'Charley's has been making money and expanding ever since Wachtel bought the two-unit company in 1985 for $3 million.

O'Charley's revenues have grown seven times since 1985, from $4.8 million to a fiscal 1989 year-end of $36.1 million. For the 16 weeks ended April 22, revenues increased 27 percent, to $10.7 million, with net earnings up 35 percent, to $226,000.



NRN Photo

An O'Charley's unit in Nashville, Tenn.

The most recent quarterly earnings follow the upswing of the past five years.

For the fiscal year ended December, O'Charley's net income increased 12 percent, to $953,000. Although profits decreased 36 percent in 1988, the company has not had a losing year since Wachtel took over.

The company's current capitalization is also healthy, based on the filing documents. Total assets as of April 1990 were in excess of $19.9 million with total long-term debt, including leases, amounting to $9.9 million, for a rough ratio of 2-to-1.

Part of the proceeds of the IPO, about $8.7 million, will be used to pare down bank loans and revolving credit debts. Another $2 million will go toward paying the debts of SRM, a four-unit franchise operation, 80 percent of which Wachtel owns and which O'Charley's purchased.

Since 1985, O'Charley's has been growing at the rate of about four new restaurants a year. Wachtel said the company will open two stores before the year is out and another five during 1991.

He said O'Charley's prefers to expand through company units rather than by recruiting franchisees.

The typical investment cost for opening a new O'Charley's ranges from $1.2 to $1.6 million, the filing document reported.

Per-unit sales have increased since 1985, but the average unit growth rates have been softening. In 1986 a typical O'Charley's generated $1.5 million in annual volume, 26 percent less than the $1.9 million for the fiscal year ended 1989. But between 1986 and 1989, average unit volume has increased only 4.4 percent. For the quarter ended April 16, per- unit sales increased a scant three-tenths of a percent, to $609,000.

Although company restaurants are in markets with aggressive segment leaders like T.G.I. Fridays, Houlihan's, Bennigan's, The Olive Garden and others, Wachtel is anything but worried.

"The only thing the competition can do for me is not block my driveway," he said.

FOOD PRICE OUTLOOK

Rains may boost canned, frozen prices

by Patt Patterson

Last year everyone worried about the drought. This year it's the deluge.

Rains have been continuously hitting Wisconsin, Minnesota, Michigan, Illinois and Indiana, prime growing areas for a good part of our canned and frozen vegetables.

Growers of **peas, corn** and **green beans** have all been suffering from late planting, washed-out crops and a late harvest, which in some cases may expose the crop to frost loss.

Expect packs to come in well below forecasts, with resulting higher prices from the fall through next year.

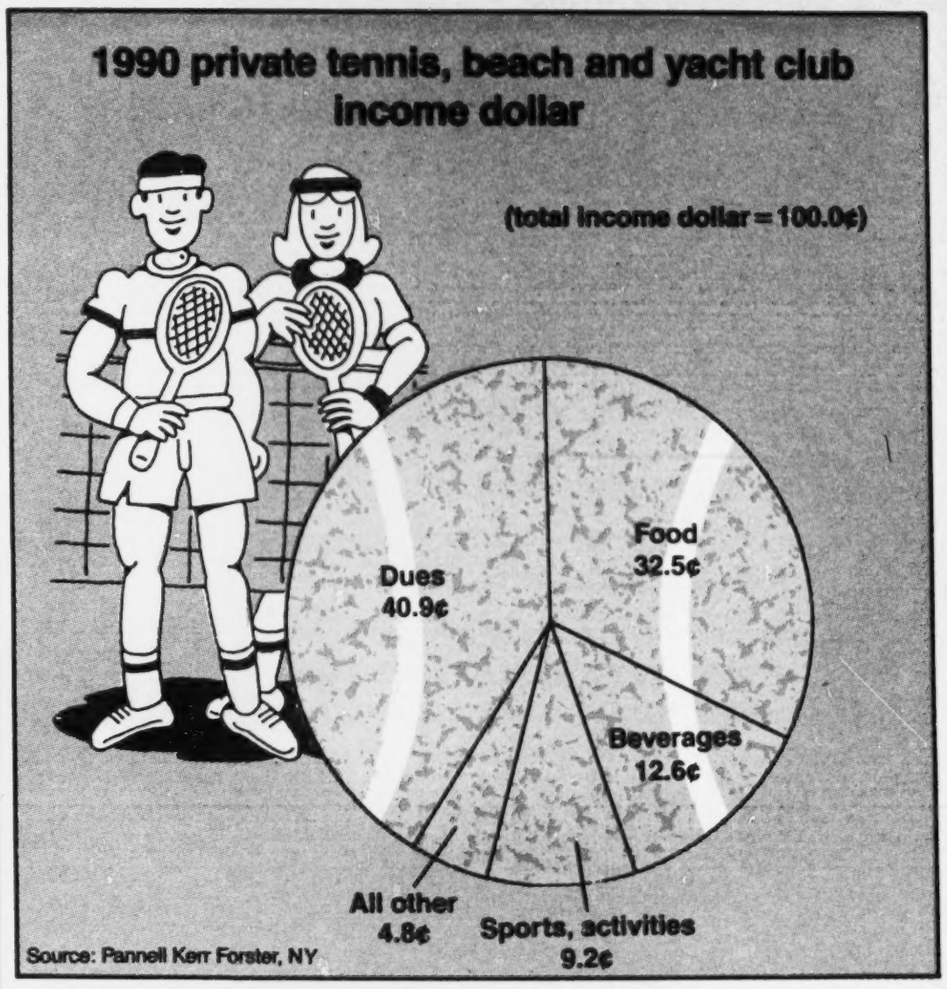
After a hike in prices from mid-June through mid-July, **iceberg lettuce** has again dropped below most growers' costs of production. This is a bargain for operators but may bode ill for available supplies in the future. For a while California's central coast growing area had the market almost all to itself, but now Colorado and New York are in full production and buyers have a greater choice of supply. Look for lower prices to continue unless some disaster in the fields occurs.

California's **frozen broccoli** and **spinach** packs are up, with prices easing for broccoli. Those for spinach, however, are holding fast, because mildew curtailed the leaf pack, with all of the gain in cut and chopped packs.

Cauliflower processing has started only recently, with no early indication of what pricing was going to be on the new pack.

California **asparagus** came in under the forecast, but a big carryover from last year means supplies should be more than sufficient to hold prices at present levels.

FACT FILE



FINANCIAL DIGEST

Frisch's shuts 20 units; profits gain

CINCINNATI — The closing of 20 units reduced Frisch's Restaurant's third-quarter sales 2 percent, to $31.3 million, but net income climbed 37 percent, to $215,878, for the period ended March 4.

For the 40-week period, sales declined 3 percent, to $110 million, but net income rose 16 percent, to $1.8 million.

The company attributed the sales decline to the shuttered units and credited improved same-store sales activity for its strong profit growth. Frisch asserted that net earnings for the first three quarters outpaced the results for the year-ago period because losses from the closed restaurants no longer had a negative impact on operations.

Moreover, the company said net income was boosted by investment income derived from its limited partnership interest in the Cincinnati Reds.

Frisch's is a diversified restaurant company with 101 Big Boy Restaurants, 12 Roy Rogers, three Prime 'n Wine units and two Quality Hotels.

Mild weather boosts Consolidated

INDIANAPOLIS — Consolidated Products said mild winter weather during the second quarter was responsible for a 24-percent gain in net income, to $945,360, on a 6-percent jump in sales, to $30.4 million, for the period ended April 11.

For the 28 weeks during the period, sales rose 7 percent, to $54.3 million, with net earnings up to $2.2 million, a 17-percent increase.

During the quarter the company named Stephen M. Huse, founder of Noble Roman's restaurants, vice chairman. He will succeed James Williamson Jr., president and chief executive officer, upon his early retirement next month.

Consolidated Products operates 127 of the 140 units in the Steak 'n' Shake Restaurant chain in addition to several specialty or one-of-a-kind restaurants and smaller chains.

ViCorp's 2nd-Q net jumps 96%

DENVER — ViCorp Restaurants Inc. reported a 96-percent gain in net income, to $4.3 million, on a 12-percent rise in revenues, to $93.6 million, largely as the result of improved same-store sales averages, for the second quarter ended May 13.

For the first 28 weeks of Vicorp's fiscal year, net income rose 88 percent, to $7.7 million, and sales jumped 11 percent, to $209.5 million.

ViCorp benefited from a 6.2-percent gain in comparable restaurant sales and the revenue contribution from seven new restaurants, which enjoyed higher-than-expected sales increases.

The company attributed much of the same-store sales improvements and higher traffic counts to menu modifications that led to per-person ticket averages higher than those of a year ago.

However, Charles R. Frederickson, chairman and chief executive officer, said that although the second quarter was ViCorp's 13th consecutive improvement in operating profit, subsequent periods might not be so impressive.

"Maintaining this pace will become more difficult as we begin comparisons with the strong operating performance of recent quarters," he said.

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Value fuels Top 100 boom

Price busters, ethnic foods, dinner houses soar amidst per-unit sales slowdown

by Richard Martin

America's hearty appetite for value, variety and ethnic flavors has ignited a binge of growth for responsive players among the industry's 100 leading cash generators, according to the 1990 Nation's Restaurant News Top 100 report.

However, the study also spots symptoms of economic malaise — including slumping per-unit sales and dipping rates of chain expansion — at a majority of the industry's front-runners.

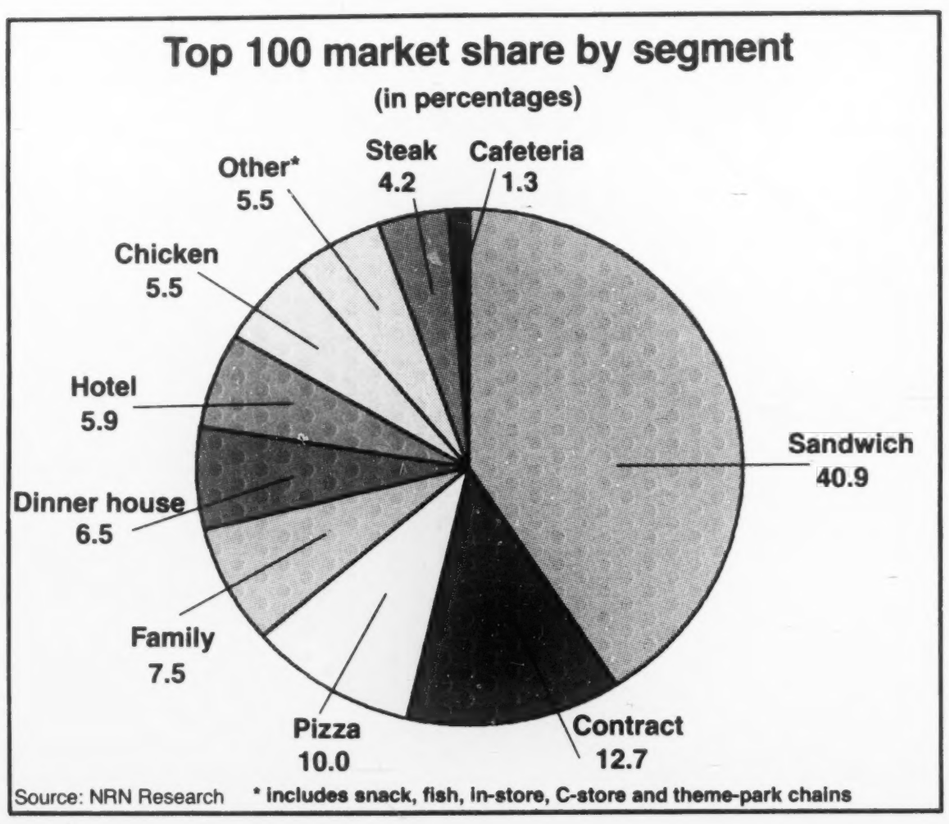
Even long-standing role models like McDonald's, Red Lobster, Chili's and Sizzler are trending sharply downward in certain key indicators of growth momentum, the report indicates.

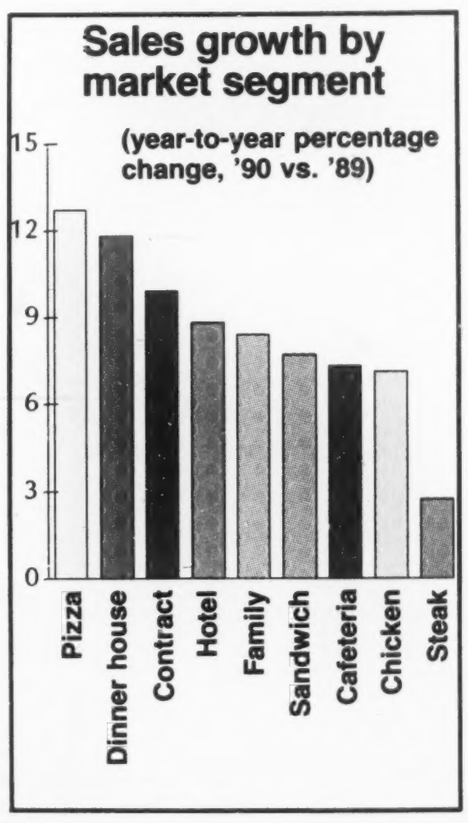
But torrid growth rates at price-buster Taco Bell and at the Rally's 99-cent burger drive-thrus have put those chains among the Top 100's front-line pacesetters. And the non-burger alternatives of sandwich-maker Subway and "adult" fast feeder Jack in the Box have helped boost those chains into fast-track slots as growth leaders.

NRN's Top 100 report, which ranks leading chains by a variety of criteria, also shows the rapidly expanding Italian dinner-house operator Olive Garden and the booming Little Caesars Pizza chain helping to propel their respective Top 100 market segments into dominant growth rankings.

Despite below-par growth in several Top 100 markets — including budget-steak, chicken and cafeteria — the 100 highest-grossing chains in

(See TOP 100, page 4)





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McD bruised by upstarts in sandwich market war

by Richard Martin

Tweaked by vigorous upstarts like Jack in the Box, Subway and Rally's and bludgeoned by red-hot Taco Bell and its 59-cent menu, the industry's leading burger chains are feverishly discounting and diversifying to bandage their bruised market shares.

Faced with slower domestic expansion rates, McDonald's and other sluggish biggies in the field are repositioning their food lineups, massaging their price points and re-examining service modes to combat the defection of customers to attractive — often lower-priced — rivals in the Top 100's sandwich segment.

However, the entrenched burger chains seem distracted by two contrasting imperatives — the impulse to selectively cut prices and sacrifice margins for short-term traffic gains and the longer-range

(See SANDWICH, page 94)

SANDWICH CHAINS RANKED BY TOP 100 MARKET SHARE

1990 Rank	1989 Rank	Chain	Fiscal Year Ends	Annual Market Share Current	Last Full	Prior
1	1	McDonald's	Dec. '90	35.80%	36.10%	36.84%
2	2	Burger King	Sept. '90	15.90	17.13	17.48
3	3	Hardee's	Dec. '90	9.05	8.96	9.14
4	4	Wendy's	Dec. '90	8.56	8.50	8.81
5	5	Taco Bell	Dec. '90	7.25	6.01	5.18
6	6	Dairy Queen	Nov. '90	5.52	5.82	5.95
7	7	Arby's	Dec. '90	3.58	3.66	3.56
8	9	Subway	Dec. '90	3.12	2.35	1.60
9	8	Jack in the Box	Sept. '90	2.60	2.51	2.51
10	11	Carl's Jr.	Jan. '91	1.67	1.65	1.56
11	10	Roy Rogers	Dec. '90	1.39	1.76	1.83
12	12	Sonic Drive-in	Aug. '90	1.14	1.17	1.12
13	13	Rax	July '91	0.95	0.99	1.06
14	14	Whataburger	Sept. '90	0.89	0.90	0.88
15	15	White Castle	Dec. '90	0.83	0.84	0.92
16	18	Rally's	June '91	0.59	0.47	0.33
17	16	Del Taco	Dec. '90	0.59	0.62	0.65
18	17	Krystal	Dec. '90	0.57	0.57	0.58

Source: NRN Research.

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NOTE TO READERS

The Rick Telberg and Patt Patterson columns and the Product Showcase, Side Dishes, Name of the Week and Quotables features are not appearing in this issue because of the space required for the annual Nation's Restaurant News Top 100 report. They will return next week.

NRN DIRECTORY

For complete directory, see **page 35.**

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Vol. 24, No. 31 August 6, 1990

NEWS BRIEFS

Congress passes bill limiting TV ads for kids

WASHINGTON — Both the House and the Senate have approved a bill that would limit advertisements on children's television and would require the Federal Communications Commission to ensure that broadcasters provide educational programming for children.

The Bill, titled the "Children's Television Act," would curtail advertising to 12 and one-half minutes per hour of broadcasting on weekdays and 10 and one-half minutes per hour on weekends.

McDonald's, Burger King and Pizza Hut are among the foodservice chains that buy network time during children's shows.

Ariz. operators fight packaging ban with education

TUCSON, Ariz. — Restaurateurs here in Pima County are waging an educational campaign to defuse support for a ban of polystyrene food containers.

County supervisor Ed Moore suggested the ban but backed away from his proposal after the foodservice operators commenced their drive. However, the idea caught the attention of Pima's board of supervisors.

"They're going to look into it and see what other areas have done," said Zenda Treaster, proprietor of Eegee's, a quick-service outlet that specializes in frozen drinks. "The problem is that the public has been misinformed."

The anti-ban group has placed a full-page newspaper advertisement explaining that polystyrene is a very small component of the nation's solid-waste output.

TW Holdings loses $12.7 million in 2nd quarter

SPARTANBURG, S.C. — Charges and interest payments related to the acquisition of TW Services led to a $12.7 million second-quarter loss for TW Holdings despite double-digit increases in operating income by the company's restaurant group and contract feeding arm.

For the period ended June 30, the diverse foodservice conglomerate reported an 8-percent increase in revenues, to $942.3 million. A year ago the company reported net income of $20.8 million.

TW Holding's restaurant group — which includes Denny's, El Pollo Loco, Quincy's and franchised Hardee's outlets — posted a 15-percent increase in combined income to $65.9 million, on a 12-percent hike in revenues, to $595.6 million.

Revenues at Canteen, the contract feeder that has been battered lately by declining business from military accounts, rose just 1 percent, to $346.7 million, but a corporate streamlining program boosted income 32 percent, to $16.4 million.

For the six months of its fiscal year, TW Holdings lost $58.8 million on a 7-percent gain in revenues, to $1.8 billion.

Karcher shakes up marketing

ANAHEIM, Calif. — Carl Karcher Enterprises Inc., operator and franchisor of the 542-unit Carl's Jr. chain, has restructured its marketing department and indefinitely postponed its ongoing advertising agency review.

Bob Wisely, the group vice president of marketing, has resigned, reportedly to pursue other interests. Patricia Rowell, marketing services vice president, has also left the company, which said that the position had been eliminated. Both Wisely and Rowell had been with the company since 1985.

A spokeswoman for the chain said the company is currently searching for a vice president of marketing, a position that didn't exist under the old organizational format.

Ray Perry, executive vice president of Carl's Jr., will assume the duties of marketing vice president on an interim basis.

The departure of Wisely and Howell pushed back the agency review of the company's $20 million ad account. Della Femina McNamee, Los Angeles, the incumbent agency for Carl's Jr., will continue to oversee the account.

Wendy's buys 27-unit franchisee in New Orleans

NEW ORLEANS — Wendy's International Inc. has purchased 27-unit Wendy's of New Orleans Inc. from Keystone Convenience Co. for an undisclosed sum.

The restaurants, battered by financial and operational troubles, are located in New Orleans, St. Tammany, St. Bernard, Jefferson and St. John the Baptist parishes. Wendy's will own the restaurants through Chan Development Inc., a subsidiary, and plans to retain the group's 450 employees.

Olive Garden unit prohibits smoking

WINTER PARK, Fla. — The Olive Garden, a 210-unit casual dinner-house chain, has created its first totally non-smoking restaurant in this north Orlando suburb.

Not envisioned as the start of a nationwide rollout, the move is prompted mainly by the unit's small size, 4,800 square feet, compared with other Olive Gardens. But local patron demand is also playing a roll, the company said.

"The Park Avenue restaurant is the only location that will be converted," said Bill Lombardo, sales and product development vice president. "We don't intend to change the smoking policy in any other Olive Garden," he added.

The 6-year-old restaurant has 203 seats, about a third less than newer Olive Garden units.

Industry renews FICA tax battle

WASHINGTON — Foodservice lobbyists have renewed the industry's opposition to employer-paid FICA taxes on tips.

An ad hoc group of dinner-house operators, including General Mills, Chili's and Shoney's, testified before the Social Security Subcommittee of the House Ways and Means Committee, said foodservice organizer Richard Berman.

"FICA taxes on tips are illogical, unfair and financially devastating," Rob Haimson, an independent restaurateur from Greeley, Colo., told the House panel in testimony sponsored by the National Restaurant Association.

The House hearing followed by less than a month a similar one in the Senate. But political analysts give the repeal effort little chance of victory as long as Congress and the administration remain focused on the budget crisis.

Arby's tests frozen yogurt

ATLANTA — The 2,300-unit Arby's sandwich chain has launched a 16-store test of Dannon vanilla and chocolate low-fat frozen yogurt.

Selected Arby's restaurants in Lexington, Ky., and Portland, Ore., will be offering the product in cones and in 5- and 7-ounce cups with a choice of eight toppings.

Prices will range from 99 cents to $1.39. Marketing support for the test, which is slated to run through December, includes in-store point-of-purchase materials.

ACF names Folse chef of the year

NEW ORLEANS — John Folse, who became an international celebrity when he piloted the first Soviet-American Culinary Exchange in 1988, was named the American Culinary Federation's national Chef of the Year during the group's 1990 conference here.

Folse, chef-owner of Lafitte's Landing in Donaldsonville, La., edged out two other ACF stalwarts — James Edwards, representing the ACF Kentucky Chapter, and Michael Ty of the Fraternity of Executive Chefs of the State of Nevada.

In other ACF ceremonies, Oregon chef Roland Henin, who captained the U.S. Western region culinary team in 1988, and who now coaches 1992 Culinary Team USA — was handed the first national ACF Chef Professionalism Award.

NEWS

Top 100 growth leaders cash in on value, ethnic trends

(Continued from page 1)
foodservice will bank a projected $87.7 billion in sales this year, an 8.8-percent average gain over their aggregate tally in 1989.

Those results compare with the 6.2-percent sales gain predicted by the National Restaurant Association for the entire industry, whose sales are expected to reach $240 billion this year.

Sales growth in the NRN Top 100 has actually accelerated over last year's pace, when the same 100 chains posted an 8.1-percent year-to-year gain to outdo the identical 6.2-percent industry rate measured by the association.

The Top 100 data also reveal that the industry's two highest-grossing systems — McDonald's and Burger King — have lost significant bites of their market shares over the last three years, especially to sandwich-segment upstarts featuring budget prices and menus that de-emphasize burgers.

For McDonald's, "the task of leading the parade becomes harder and harder," George Rice, chairman of GRD Enterprises and the CREST research group, says.

Although McDonald's and Burger King still dominate their field on the basis of total volume, Subway and Rally's lead the Top 100 in sales growth and chain growth.

Taco Bell and Jack in the Box top the new Top 100 sales-per-unit growth chart by a substantial margin.

Meanwhile, McDonald's, Sizzler, Red Lobster and Chili's are among the scores of chains that are tumbling on the critical scale of per-store sales gains, with Chili's restaurants — which rose 7.5 percent last year — gaining sales at a nominal 2.3-percent clip this year and McDonald's units adding transactions barely half a percentage point higher than last year's.

Subject to increasing scrutiny from Wall Street, McDonald's leaders are viewed as being under a compulsion to build restaurants and expand systemwide sales at the expense of per-unit averages. "That's part of their strategy, but they've got to be cannibalizing their own business," says Ron Paul, president of Technomic Inc., a Chicago consulting firm.

In the systemwide-sales-growth derby, Olive Garden and Little Caesars are running directly behind No. 1 Subway and No. 2 Rally's, a chain that entered the exclusive Top 100 statistical universe for the first time this year.

Rally's teamed up with Subway to nudge Olive Garden into third place in the sales-growth rankings. The two sandwich chains also eased Olive Garden into sixth place in chain growth, with help from fast-expanding TCBY frozen yogurt, Ogden Allied contracting and the Ruby Tuesday dinner-house chain, another Top 100 newcomer.

This year the ascent of Top 100 chains in the pizza and dinner-house fields has sent the growth curves of those categories soaring.

The pizza segment's seven leading chains, dominated by Pizza Hut and Domino's, are scoring a 12.7-percent average gain over their sales last year to lead all Top 100 market groups.

The dinner-house category's 13 chains, topped by Red Lobster, Olive Garden, T.G.I. Friday's and Chili's, are averaging 11.8-percent systemwide sales growth this year. The segment's rising fortunes stem from shifts by fast-food and fine-dining patrons toward moderately priced full-service alternatives, industry analysts say.

Pepsico's hybrid units offer ethnic diversity.

Despite exposing a range of positive indicators, the Top 100 study reveals vulnerability and weakness among scores of the industry's cash cows. For instance, fewer than one-third of the Top 100 chains are recording sales-per-unit growth rates that meet or exceed the industry's current 5-percent-average rate of menu-price inflation.

Thus, the operating units of more than two-thirds of the Top 100 chains may be sustaining real declines in sales after adjusting for price increases. And 12 of the 100 are suffering from flat or negative unit-sales growth rates before giving any consideration to the inflation factor.

Although a diversified company like San Diego-based Foodmaker Inc. is enjoying robust performance in both its Jack in the Box fast-food and Chi-Chi's Mexican dinner-house chains, chairman Jack Goodall still considers fallback strategies he might have to exploit if consumers were increasingly to "trade down" in their spending habits.

Pondering the potential risks of a general economic downturn, Goodall suggests that "Chi-Chi's may be more recession-proof than Jack in the Box, because in its segment Jack in the Box is a fairly high-priced player."

Concerns about market gluts and recession are never far from the minds of most chain leaders, even though optimism still pervades their outlooks.

"Although our research on market share is encouraging, we are not satisfied with the current sales situation in the U.S.," Edward Rensi, the president of McDonald's, says in a financial release covering the company's first-half results. "We are placing more emphasis on service and taking steps to enhance value for our customers."

While the leading corporate rival of McDonald's — Pepsico — is merging its trio of Top 100 chain concepts into promising hybrid-unit tests, McDonald's is attempting to broaden its burger-based market through the proposed additions of dinner items like pizza, fried chicken and pasta.

The six-month report of McDonald's, the industry's No. 2-ranked franchisor based on revenue, helps explain the dilemma confronting entrenched chains that are struggling to diversify their customer bases. Revelations emerge from comparisons of McDonald's sales against those of Pepsico, the industry's No. 1 franchisor and the owner of three of the Top 100's eight highest-grossing chains — Taco Bell, Pizza Hut and Kentucky Fried Chicken.

Corporate revenue from Pepsico's restaurant group, which posted its six-month results just as those of McDonald's appeared, grew at a rate more than twice as fast as the revenue of McDonald's.

On the Top 100's ranking of companies by year-to-year growth in foodservice revenue, Pepsico placed 14th, with an 18.6-percent jump, while McDonald's ranked 78th, growing 3.2 percent.

Increasing dependence on international expansion for sustained growth is another trend followed by those companies and a host of others facing domestic prime-site scarcity. In addition to slow domestic expansion, McDonald's is bogged down by higher prices than those of several of its hottest competitors and by its slower response to customers' broadened tastes, analysts say.

Conversely, those analysts suggest, Pepsico exemplifies the virtues of multisegment diversification, ethnic appeal and heightened sensitivity to service and price-value concerns. Pepsico's restaurants have "lowered their prices and created more 'customer-intensive' stores," Michael Mueller, an analyst at San Francisco-based Montgomery Securities, says.

Industry faces nutrition crisis

(Continued from page 3)
"It's a real step forward," said Michael Jacobson, executive director of Center for Science in the Public Interest, a consumer advocacy group based in Washington. "When we first started campaigning in a big way five or six years ago, nutrition was not a big issue to most of these big companies. Now fast-food chains are obviously concerned. They're realizing that it's good for them, and it's good for the public."

"I really think the consumer is the winner here," said Neva Cochran, a registered dietitian and representative for the American Dietetic Association in Chicago. "It's a step in the right direction because any change they make to lower cholesterol is going to benefit their customers."

Sokolof and other groups like the CSPI had been pressuring fast-food companies to refine their ingredients for years. In response to a limited degree, the hamburger chains often pointed to their addition of chicken sandwiches over the past few years as some of the steps they were taking to cater to a more nutritionally aware consumer.

But McDonald's president, Ed Rensi, downplayed the impact of activists like Sokolof. Rensi insisted that the company's switch was prompted by nearly eight years of research and customer input.

Asked by an interviewer what effect Sokolof and others had on McDonald's decision, Rensi said, "Absolutely none." When pressed, he said "very little to none."

In the end, McDonald's adopted a cottonseed and corn oil mixture; Burger King went with cottonseed and soy; and Wendy's chose all corn. Hardee's, which switched two years ago, uses a combination of peanut and soy oils.

Burger King spokesman Michael Evans said the company had been looking for an alternative frying oil to beef tallow for years. He said everything except french fries had been cooked in vegetable-based oils since 1986 while the company continued to search for an oil that would maintain the flavor of the fries and yet cater to the nutritional awareness of its customers.

Denny Lynch, Wendy's spokesman, said the company would have switched earlier had it found a vegetable oil that could have maintained the taste and appearance of its products. But while it searched, Wendy's relied on a product that was a combination of beef tallow and vegetable.

In a real sense, Wendy's, McDonald's and Burger King are following Hardee's lead.

Jerry Singer, a spokesman for Hardee's, said, "We just thought it was the right thing to do, and now it looks like the other chains are following our success."

Singer said the company's fried-food sales increased 25 percent after adding the product, though the oil also cost about 30 percent more than animal-based frying oils.

He said the move to switch oils came after customers expressed satisfaction with the chain's chicken fingers — fried in vegetable oil — and asked the company to consider preparing other menu items in the lighter oil.

Some industry observers and some quarters of Wall Street said the switch was a predictable move, whose one side benefit may actually be improved traffic counts.

"This was probably inevitable," said Nancy Kruse, a principal associate at Technomic Inc., a foodservice research group in Chicago, "given that fast food has been perceived as being quote, unquote unhealthy."

"This is somewhat overdue," said Roger Lipton, an analyst with Ladenburg, Thalmann. "It might even help to bring traffic back to chains like McDonald's."

"But I think it was impossible for responsible management to continue to ignore the consumers long-term interest in eating healthier foods."

Other analysts think the oil change will have little impact on what has been sluggish same-store sales growth in the hamburger segment, particularly at McDonald's.

"An event like this won't change much," said Joseph Doyle, an analyst with Smith Barney. "McDonald's has a lot of background problems, and one of them is the perception, rightly or wrongly, that fast food is not nutritional."

And Leslie Steppel, a Prudential Bache analyst who downgraded McDonald's stock from hold to sell, said, "Given the problems McDonald's has, I think they are going to have to do a lot more than just change their oil."

CORRECTION

"Cornell names hotel school dean," June 18, Page 7, incorrectly said that the new dean of the Cornell University School of Hotel Administration was chosen from a field of three finalists, none of whom was affiliated with the hospitality industry.

In fact, one finalist was a senior hotel executive,and several Cornell faculty members were approached for the position but declined to be considered.

In addition, the story incorrectly reported the deanship's salary as about $75,000. In fact, it is higher than that.

FINANCIAL NEWS

A tale of 2 earnings reports: Pepsico gains, McD's sags

by Milford Prewitt

OAK BROOK, Ill. — The near-simultaneous release of financial reports from restaurant giants McDonald's and Pepsico offers a stark contrast in the expanding fortunes of one and the flattening rate of growth from the other.

Pepsico's restaurant group's sales grew more than twice as fast as McDonald's during the first six months, and Pepsico's rate of profit growth was more than three times higher than McDonald's.

McDonald's sluggish second-quarter prompted one analyst to downgrade the company's stock from a hold to sell, a rare recommendation for the industry's premiere blue chip.

Leslie Steppel of Prudential-Bache said McDonald's appears to be "pricing itself out of the market" and seems incapable of reversing its chronic same-store-sales decline in a segment rife with discounting.

But Roger Lipton of Ladenberg, Thalmann argued that McDonald's may reverse its misfortunes.

"Nobody buys stock or makes investments based on a single quarter's performance," Lipton said. "I think there has been an overreaction."

"McDonald's is still a state-of-the-art stock and one of the greatest companies the planet has ever seen. It's a long-term buy," Lipton said.

Joseph Doyle of Smith Barney, meanwhile, said he is neutral about the stock.

"I was surprised that so many analysts were surprised by the second quarter," Doyle said. "Still we're neutral on it until there's some earnings improvement."

For the second quarter ended June 16, Pepsico restaurants — Taco Bell, Kentucky Fried Chicken and Pizza Hut — increased operating profits 35 percent, to $137.6 million, on a 22-percent gain in revenues, to $1.4 billion.

McDonald's reported a 10-percent gain in net income, to $215.8 million, on a 10-percent rise in sales, to $1.7 billion, for the June-ended second quarter.

> Overseas, McDonald's is growing faster than Pepsico.

Pepsico, for the six-month period, boosted restaurant sales 22 percent, to $2.7 billion, with net income climbing 36 percent, to $228.6 million.

For McDonald's six months net income grew 11 percent, to $373.9 million, on revenues of $3.2 billion, a 10-percent gain.

Overseas, McDonald's is growing faster than Pepsico. The hamburger giant's foreign sales rose 26 percent, to $1 billion, in contrast to Pepsico's 22-percent increase, to $295 million.

But Pepsico's operating profit from its overseas operations was up 47 percent, to $34.9 million, during the six months. McDonald's does not detail net income from foreign operations.

Though McDonald's chairman and chief executive officer, Michael R. Quinlan, and president, Edward H. Rensi, expressed disappointment about the company's softening domestic sales trends, they pointed out that the chain continues to add units faster overseas than domestically.

"Our growth strategy continues to focus on adding restaurants, building sales at existing restaurants and improving international profitability," Quinlan said in a statement. "Despite a weakening economy and a slowdown in U.S. retail spending."

"Although our research on market share is encouraging, we are not satisfied with the current sales situation in the U.S.," Rensi added. "So we are placing more emphasis on service and taking steps to enhance value for our customers."

McDonald's has already started promoting $1.99 Happy Meals.

The company actually operated 26 fewer restaurants domestically than it did a year ago, 1 percent less, down to 1,711 outlets. Domestic franchisees increased their stores by six, to 6,136. When affiliates are added, the chain grew 4 percent, to 8,362 domestic units.

Outside the United States, the chain grew 10 percent in size, adding 275 restaurants in foreign markets for a total unit count of 11,343 by June 30.

McDonald's systemwide sales were up 7 percent, to $4.5 billion, for the quarter and $8.9 billion at midyear, an 8-percent gain.

For Pepsico, meanwhile, the continued resurgence of KFC was a bright spot.

During the quarter KFC's sales increased 10 percent, to $358 million, while operating profit doubled to $36 million. For the six months, KFC's sales jumped 17 percent, to $680.7 million, with a 70-percent gain in profit, to $59.5 million.

However, much of KFC's gain in operating profit was artificially inflated by the payout of an $8 million reorganization charge the company took last year to cover a wave of layoffs and regional office consolidations.

Pepsico attributed the continued success of the Hot Wings program for much of the increase in traffic at KFC.

Pizza Hut, still the leading pizza chain, racked up a 25-percent gain in both second-quarter sales and profit. Operating profit was $64.8 million on revenue of $676.2. For the six months operating profit was up 30 percent, to $115.9 million, on a 24-percent increase in sales, to $1.3 billion.

FOOD PRICE OUTLOOK

Shrimp imports from China increase

by Patt Patterson

Chinese white shrimp imports through the first four months of this year were up about 70 percent from 1989. Prices have been lower as a result, but increased demand this summer is exerting upward pressure. Domestic **brown shrimp** from the Gulf of Mexico are also in good supply, with prices lower than last year's.

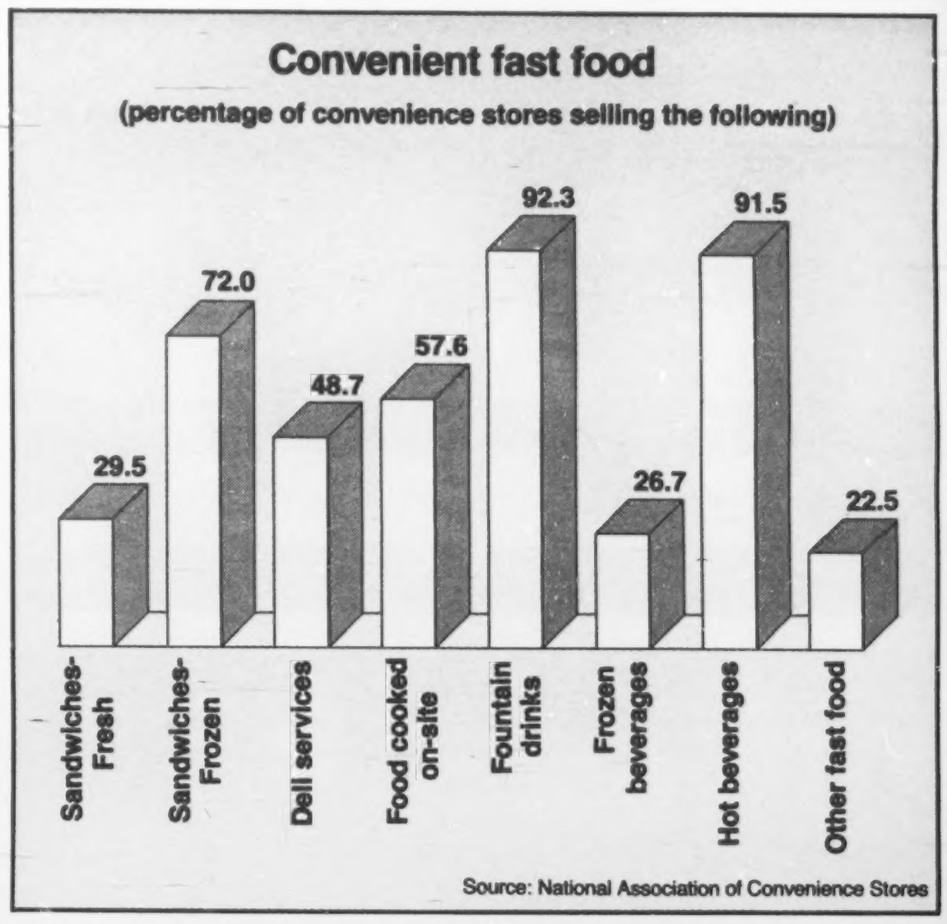
Canned shrimp demand is dropping at the same time supplies are tightening. There's only one domestic plant canning **Gulf shrimp** this year. Strong European demand has been diverting supplies from Asia. One Thailand canner is reportedly allocating supplies.

Pork prices may come down as more farmers are bringing hogs to market during the hot weather in mid-July. If that continues, prices may dip for a while, but there is a smaller number of hogs on farms, so expect a squeeze before fall.

Hot weather is beginning to worry Southern **poultry** producers. Prolonged high temperatures cause losses, especially among younger chickens. And prolonged heat will mean higher prices. **Egg** prices have been fairly stable, but hot weather plays havoc with egg production, too. Prices have been running at about last year's level at this time, with some increase.

Two of the main feeds for **cattle** and **hogs** are moving up in price because of smaller crop forecasts. Both **soybeans** and **corn** are expected to run behind last year, with prices as much as 20 percent higher.

FACT FILE



FINANCIAL DIGEST

Papa Gino's lays off 25 workers

DEDHAM, Mass. — In a move that reflects the recession gripping New England and the competitive pressures from invading national pizza chains, Papa Gino's, a 218-unit regional pizza chain, has laid off employees for the first time in the company's 27-year history.

Twenty-five workers were axed, plans to open new stores have been shelved, and the launch to home delivery from existing units has been postponed as a result of flattening to declining sales trends, the company disclosed.

In addition, 20 headquarters employees will be assigned to restaurants, but it is unlikely if the 25 workers let go will be called back.

The company is projecting sales of about $136 million this year, about 1 percent better than the 1989 figure. Papa Gino's had been opening about 18 stores a year since 1983.

Ark Restaurants' net income jumps 57%

NEW YORK — Higher guest counts and better-managed food costs helped Ark Restaurants carve out a 57-percent increase in net income, to $269,000, on a 29-percent increase in sales, to $12.6 million, for the third quarter ended June 30.

For the 39 weeks in the period, sales rose 28 percent, to $35.1 million, with net income more than doubling, to $836,000.

Ark is a diversified Manhattan-based operator that owns or manages 20 one-of-a-kind restaurants in New York, Boston and Washington.

Bayport settles federal class action suits

MIAMI — A federal judge has dismissed all of the class action suits brought against Bayport Restaurant Group, thus ending a series of legal actions against the company over alleged improprieties in the sale and trading of the company's stock.

The settlement relieves Bayport of any monetary penalties.

Meanwhile, Bayport has begun preliminary negotiations with several unidentified parties to invest in the company — possibly to acquire it — in order to finance an expansion bid.

Bayport, previously known as Captain Crab Inc., owns and operates CrabHouse Seafood restaurants and Captain Crab's Take-Away restaurants in Florida and Georgia.

Cucos posts 10% 2nd-Q net income gain

NEW ORLEANS — Cucos Inc. credited increased guest counts, a new restaurant and improved same-store sales averages for a 7-percent jump in revenues, to $3.1 million, with a net income gain of 10 percent, to $30,219, for the third quarter ended April 8.

Average guest counts for the quarter jumped about 1 percent, but same-store sales rose 4.5 percent.

Cucos operates 10 of 30 Sonoran-style Mexican restaurants.

Cooker net jumps 31% on chain expansion

COLUMBUS, Ohio — For the quarter ended April 1, Cooker Restaurants' first-quarter net income jumped 31 percent, to $412,802, on a 29-percent gain in revenues, to $8.1 million, principally as a result of having two new restaurants.